# Commercial Real Estate Market Insights Report

## June 2025

National Association of REALTORS®
Research Group

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# Commercial Real Estate

## An Overview

The economy sent mixed signals in the middle of the second quarter. While GDP contracted in the first quarter compared to the previous quarter, inflation remained below 2.5%, but still above the Federal Reserve's 2% target. As a result, interest rates held steady. In the meantime, uncertainty in the market persists, driven by tariffs, evolving trade policies, and other macroeconomic factors that could influence market dynamics throughout 2025. Despite this, most segments of the commercial real estate market have shown resilience.

In May, office demand showed early signs of recovery but wasn't strong enough to push net absorption into positive territory. Since then, it has slipped back onto a downward trajectory, pushing vacancy rates to new record highs. The retail market weakened as absorption turned negative since 2020, but this sector continued to remain tight. Meanwhile, industrial vacancies continued to climb, contributing to a slowdown in rent growth. At the same time, the multifamily industry remained robust, with the vacancy rate slightly coming down. Below is a summary of the performance of each major commercial real estate sector in May of 2025:

**Office** absorption declined again in May 2025 amid economic uncertainty and corporate downsizing, resulting in a 14.1% vacancy rate and a slowdown in rent growth to 0.8%. Class A posted positive annual absorption but hit a 20.5% vacancy rate; Class B held steadier with higher rent growth, while Class C remained under pressure. Major markets, such as Boston and Chicago, saw the most significant cuts, although New York rebounded to positive absorption.

As of May 2025, the **multifamily** sector is showing early signs of stabilizing, with net absorption up 19% year-over-year to nearly 528,000 units and new completions down 9%. Vacancy ticked up to 8.1% as new deliveries still exceed demand, but the gap is closing. Sun Belt markets, such as Austin and parts of Florida, are experiencing sharper rent declines due to oversupply, while Midwest cities like South Bend and Rockford are outperforming. Major metros added large volumes of new units, but weaker demand in places like El Paso and New Orleans led to net move-outs.

**Retail** demand has softened since strong pre-pandemic years, with net absorption turning negative and annual rent growth slowing to 1.7% as of May 2025. General retail is now the only segment with positive absorption, while neighborhood centers and malls posted losses but managed to reduce vacancies through inventory cuts. Although consumer sentiment declined in May, retail trade sales continued to grow, which may help offset the current uptick in store closures.

The **industrial** sector's post-pandemic boom is cooling as oversupply and softer demand push net absorption down 48% year-over-year to a 10-year low. Vacancy ticked up to 7.4% with new supply outpacing demand 4 to 1. Logistics remains the strongest segment, while Flex space saw net losses. Savannah and Dallas–Fort Worth led absorption, each topping 20M SF, while Los Angeles posted notable move-outs. Rent growth is slowing nationwide, but it still outpaces other sectors. However, regional disparities persist, with Dayton and Columbus seeing the biggest gains and LA and the Inland Empire facing sharp declines.

As 2025 progresses, the **hospitality** sector remains steady, but occupancy stands at 63.1%, still 3% below pre-pandemic levels, due to remote work and reduced business travel affecting urban hotels. Even so, room rates and RevPAR have surpassed pre-COVID benchmarks, supporting a rebound in profitability, with ADR up 22% and RevPAR up 17% compared to 2019. Hotel acquisitions have slowed slightly as investors wait for clearer signals on demand stability. Strong leisure destinations, such as Hawaii, continue to outperform, while some urban markets lag, highlighting the uneven recovery.

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# Economy

## Job growth (May 2025 compared to March 2020): 5.8%
## Inflation (May 2025): 2.4%
## Gross Domestic Product (GDP) Q1 2025: -0.5%

In May 2025, the Fed continued to keep interest rates unchanged at 4.5% for the 3rd consecutive time, as inflation rose to 2.4% in May. The job market expanded at a faster pace, adding 272,000 jobs and leaving the unemployment rate at a steady 4.0% in May. Despite ongoing economic shifts, steady job growth and easing inflation offer encouraging signs for those anticipating future rate cuts.

### The job market continued to grow in May

U.S. nonfarm payrolls rose by 139,000 in May, above the 12-month average, with strong gains in healthcare, social assistance, and leisure and hospitality. This steady job growth kept the unemployment rate at 4.2%.

Specifically, the total number of job positions increased to 159.6 million in May. Within the past year, the economy has created about 1.7 million new jobs. Since the onset of the pandemic in March 2020, the U.S. has successfully generated over 8.7 million jobs.

**Number of Jobs**

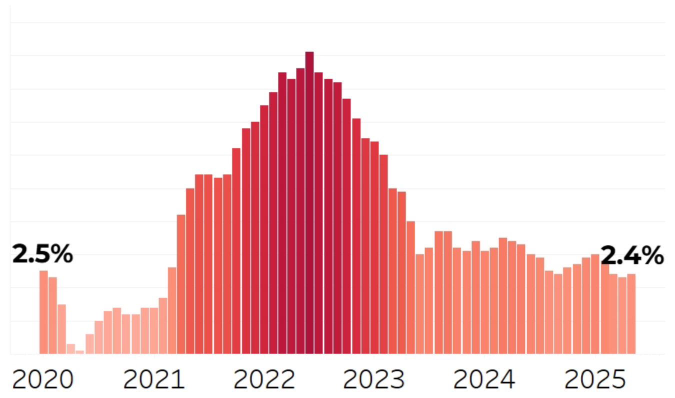
| | |
|---|---|
| March 2020 | **150.9 million** |
| May 2024 | **157.8 million** |
| May 2025 | **159.6 million** |

Source: NAR analysis of U.S Bureau of Labor Statistics data

### Inflation edged up to 2.4% in May

Overall inflation rose to 2.4%, after several consecutive declines. Meanwhile, private-sector data indicates that rent growth—accounting for roughly 40% of the CPI—may slow further in the months ahead, helping inflation moderate even more.

**Inflation**




Source: NAR analysis of U.S Bureau of Labor Statistics data

### Interest rates are held steady for the third time

While inflation is easing, the Federal Reserve kept interest rates steady in May 2025 at 4.5%, after three consecutive rate cuts in late 2024. Despite concerns about the potential impact of the new administration's policies on the economy, financial markets are still anticipating at least two more rate cuts by year-end. Since interest rates serve as the foundation for borrowing costs, this decrease is likely to stimulate investment activity in the commercial real estate sector.

### The economy declined in Q1 2025

The second estimate shows that U.S. real GDP declined by 0.5% in Q1 2025, down from 2.4% growth in Q4 2024, primarily driven by higher imports and still high government spending. Slower consumer spending also weighed on growth, although gains in investment and exports helped cushion the decline.

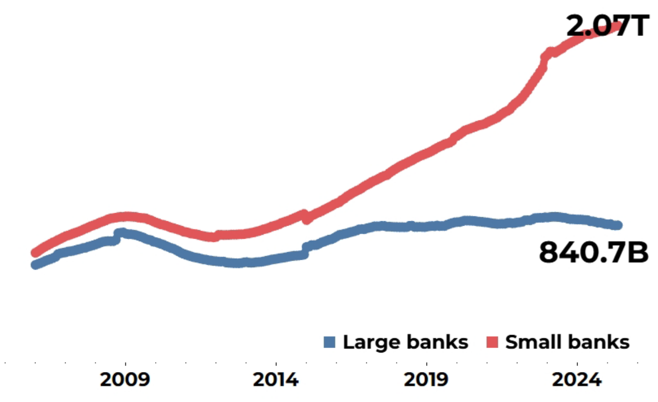
# Commercial Real Estate Lending

**CRE loans (April 2025): $3.02 trillion**
**Delinquency rate of CRE loans (Q1 2025): 1.59%**

**CRE debt remained near $3 trillion in May**
In May, total commercial real estate debt remained steady at $3 trillion, as the Fed's third straight decision to hold rates left borrowing conditions mostly unchanged. However, expectations for two rate cuts later this year could help reinvigorate CRE investment.

By bank size, large U.S. banks saw further declines in their CRE loan portfolios, dropping to $840.7 billion from $872.6 billion a year earlier. In contrast, smaller domestic banks expanded their CRE lending, with balances rising 2.6% year-over-year.

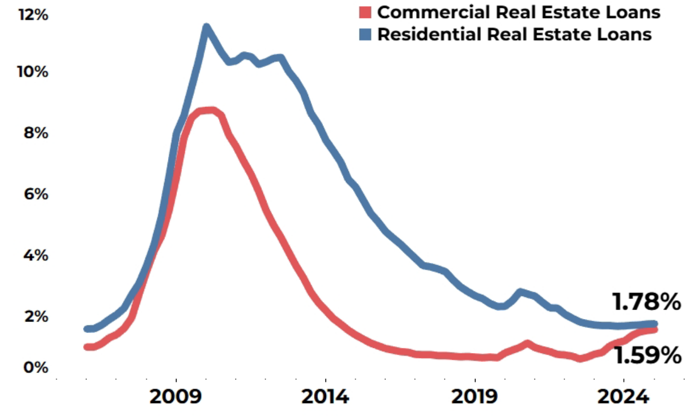
**Commercial Real Estate Debt for Small and Large Banks (May 2025)**




Source Federal Reserve

**CRE delinquency rates increased in Q1 2025**
Federal Reserve data shows that commercial real estate loan delinquencies edged up to 1.59% in Q1 2025, a slight increase that still keeps them about 0.2 percentage points below residential loan delinquency rates. Historically, commercial delinquencies have hovered near 1% over the past decade, while residential rates averaged closer to 3%, leaving a much wider gap. This recent narrowing suggests that commercial real estate loans are now experiencing more stress than in previous years, reflecting broader market headwinds and tighter credit conditions.

**Delinquency rates Commercial vs Residential loans (Q1 2025)**




Source Federal Reserve

Source Mortgage Bankers Association (MBA)

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# Office

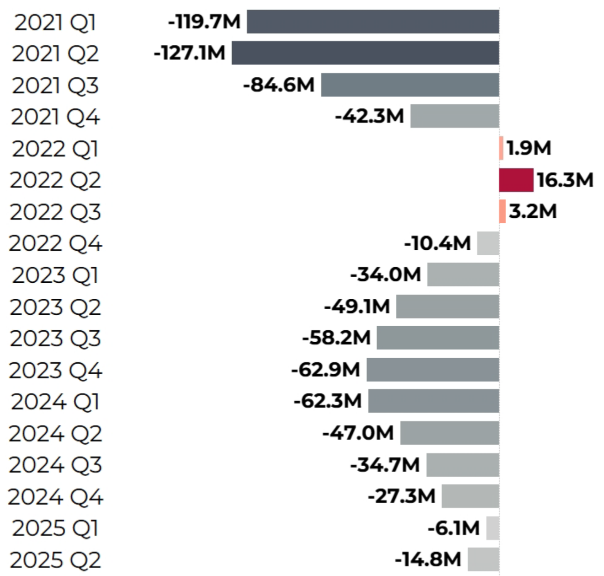
**Net absorption in the last 12 months: -14.8 million sq. ft.**
**Rent growth in the last 12 months: 0.8%**
**Cap rate: 9.1%**

After turning positive in Q1 2025, office absorption declined again in May due to economic uncertainty and corporate downsizing, resulting in a rise in the vacancy rate to 14.1%. Rent growth slowed to just 0.8% as cautious businesses held off on higher lease commitments, adding to market instability.

In May 2025, the Class A office sector saw its vacancy rate climb to 20.5%, although it achieved positive 12-month absorption for the second straight quarter. In contrast, Class B offices continued to experience vacancies, but the rate of increase was half that of the previous year, with a national vacancy rate of 12.1% and higher rent growth at 1.3%. Meanwhile, Class C offices experienced further negative absorption, resulting in a vacancy rate of 5.4%.

Boston, MA, and Chicago, IL, experienced the most significant reductions in office space. Los Angeles's office space outflows decreased significantly, dropping from 6M SF in Q2 2024 to 2.8M SF in May 2025. Following this trend, New York, NY saw a turnaround, improving from -5M SF a year ago to nearly 5M SF in 12-month absorption as of May 2025.

### Net Absorption 12 Mo in sq. ft




### Top 10 areas with the largest 12 Mo Absorption

| | 2025 Q2 | 2024 Q2 |
|---|---|---|
| New York, NY | 4.83M | -4.95M |
| Dallas-Fort Worth, TX | 1.98M | 0.26M |
| Northwest Arkansas, AR | 1.71M | 0.50M |
| Kansas City, MO | 1.57M | -0.91M |
| Miami, FL | 1.14M | -0.01M |
| Saint Louis, MO | 1.09M | 0.90M |
| Houston, TX | 1.09M | 0.12M |
| Trenton, NJ | 0.70M | -0.77M |
| Inland Empire, CA | 0.67M | 0.22M |
| Charleston, SC | 0.59M | 0.01M |

### Top 10 areas with the lowest 12 Mo Absorption

| | 2025 Q2 | 2024 Q2 |
|---|---|---|
| Boston, MA | -3.85M | -5.65M |
| Chicago, IL | -3.72M | -4.68M |
| Washington, DC | -3.36M | -5.17M |
| Los Angeles, CA | -2.82M | -6.01M |
| Denver, CO | -2.48M | -1.73M |
| Portland, OR | -1.35M | -1.97M |
| Atlanta, GA | -1.33M | -2.29M |
| Seattle, WA | -1.11M | -3.32M |
| Detroit, MI | -1.07M | -0.13M |
| Cleveland, OH | -0.90M | -0.46M |

Source: NAR analysis of CoStar data

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# Multifamily

**Absorption of units in the last 12 months: 527,884 units**
**Rent growth in the last 12 months: 1.0%**
**Cap rate: 6.0%**

By May 2025, the multifamily market is showing early signs of leveling out, supported by solid rental demand and robust absorption. Net absorption rose 19% year-over-year to almost 528,000 units, while new completions dropped 9%. The number of units actively being built has also declined for two straight years and now sits 33% below last year's levels. Still, new supply exceeds demand by about 14%, but this gap is narrowing. Vacancy edged up to 8.1%, and annual rent growth held at a moderate 1.0%, pointing to a market finding its balance.

Even with a 0.8% drop over the past year, Class A multifamily vacancies remain the highest among all classes at 10.5% as of May 2025, and rent growth stays subdued at just 0.7%. In contrast, Class B vacancies inched up by 0.4% to 9.3%, but posted slightly stronger rent growth of 0.8%. Class B also led in demand, with absorption up 20% year-over-year compared to a 15% increase for Class A.

While national rent growth remains subdued at 1.0%, some Sun Belt markets are seeing steeper declines due to oversupply, with rents dropping more than 4% in Austin, TX, and in Naples and Fort Myers, FL. Meanwhile, South Bend, IN leads the country with 6.4% rent growth, followed by Rockford, IL at 4.9% — both far exceeding the national average.

Large metros like Dallas–Fort Worth, Austin, New York City, and Atlanta each added more than 20,000 multifamily units through May, highlighting steady demand and the resilience of the rental market in high-cost urban areas. Meanwhile, markets such as El Paso, New Orleans, and Youngstown saw net move-outs, with each vacating over 100 units.

## Top 10 areas with the strongest 12-month absorption

| | 2025 Q2 | 2024 Q2 |
|---|---|---|
| New York, NY | 28,050 | 21,721 |
| Dallas-Fort Worth, TX | 26,365 | 19,646 |
| Austin, TX | 20,932 | 12,797 |
| Atlanta, GA | 20,141 | 14,433 |
| Phoenix, AZ | 17,775 | 15,108 |
| Houston, TX | 17,678 | 15,122 |
| Charlotte, NC | 13,570 | 8,882 |
| Washington, DC | 12,548 | 12,370 |
| Seattle, WA | 12,508 | 8,924 |
| Orlando, FL | 11,554 | 10,555 |

## Top 10 areas with steepest 12 Mo rent rises

| | 2025 Q2 | 2024 Q2 |
|---|---|---|
| South Bend, IN | 6.37% | 2.77% |
| Rockford, IL | 4.88% | 5.61% |
| San Francisco, CA | 4.81% | 0.70% |
| Springfield, MO | 4.44% | 2.63% |
| Evansville, IN | 4.20% | 6.09% |
| Rochester, NY | 4.13% | 4.16% |
| Lansing, MI | 4.13% | 2.78% |
| Harrisburg, PA | 4.11% | 2.49% |
| Providence, RI | 4.03% | 4.17% |
| Canton, OH | 3.99% | 4.43% |

Source: NAR analysis of CoStar data

# Retail

## Net absorption in the last 12 months: -1.7 million sq. ft.
## Rent growth in the last 12 months: 1.7%
## Cap rate: 7.1%

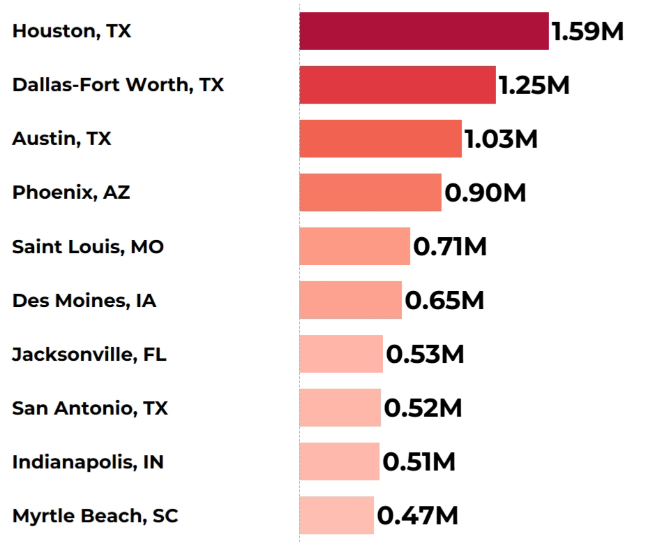
Between 2014 and 2017, retail real estate experienced strong absorption, but as e-commerce growth began to curb demand, the shift was further accelerated by the pandemic. Over the year ending in May, net absorption declined from 38.8M to –1.7M SF in the 12-month period, and rent growth slowed from 3.3% to 1.7%. Despite softer demand, rents continue to rise as tenants compete for space in prime locations.

General retail is now the sole source of positive net absorption for the year ending in May 2025, while all other segments posted negative results. Neighborhood centers posted a 12-month absorption of -11.6M SF, down from 5.8M SF a year ago. Malls saw 2.4M SF vacated but offset this by removing 3.6 M SF from inventory, allowing their vacancy rate to ease slightly to 8.6%.

The retail vacancy rate rose for the second time this quarter to 4.3% after holding steady for over two years, as 26M SF of new space entered the market and negative absorption weighed on demand.

General Retail continues to have the lowest vacancy rate at 2.6%. Neighborhood Centers and Power Centers posted the highest rent growth, 2.4% and 2.3%, respectively.

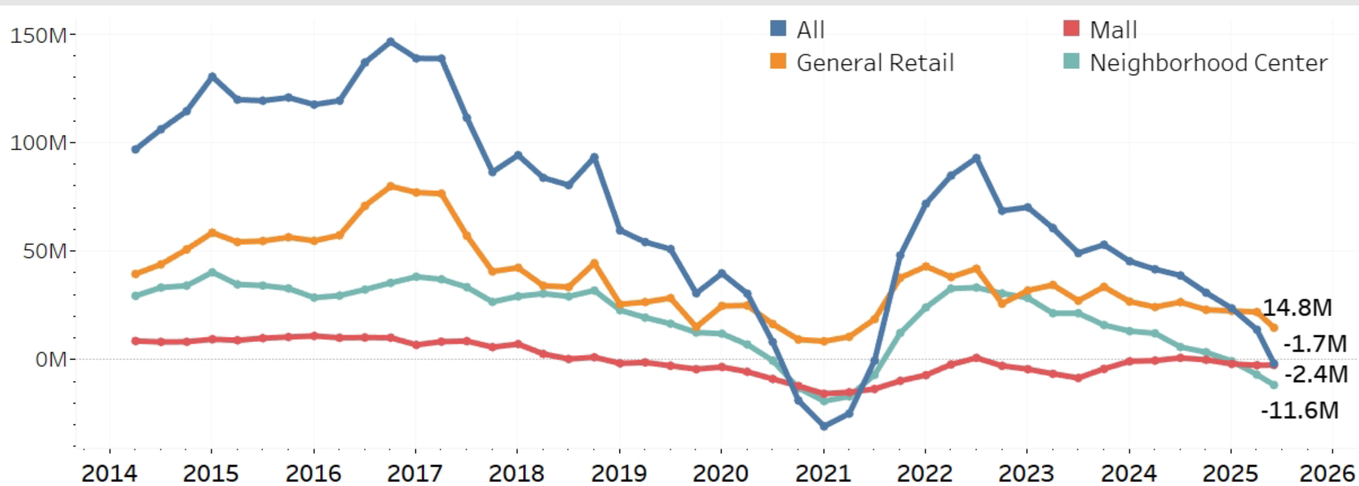
**Top 10 areas with the strongest net absorption in the last 12 months**




In May 2025, Raleigh, NC, recorded the highest rent increase of 6.9%, followed by Tampa, FL, at 5.0% year-over-year. Meanwhile, Akron, OH, and Pittsburgh, PA, saw a rent drop of over 4.0%.

Dallas–Fort Worth, Houston, and Austin, TX, led the nation in retail absorption, taking in over 1 million square feet each. Meanwhile, Los Angeles vacated around 2.4 million square feet, reflecting a socio-economic decline fueled by an urban exodus.

**Net Absorption 12 Mo by type (Q1 2014 – May 2025)**




Source: NAR analysis of CoStar data

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# Industrial

## Net absorption in the last 12 months: 67.7 million sq. ft.
## Rent growth in the last 12 months: 1.9%
## Cap rate: 7.4%

Following a surge in 2022, the industrial sector is now facing a slowdown marked by oversupply and softening demand. From May 2024 to May 2025, net absorption fell 48% to a decade-low of 67.7 million square feet. New completions outpaced demand by a ratio of 4 to 1, lifting the vacancy rate by 0.9 percentage points to 7.4%. Rent growth has moderated to 1.9% but continues to outperform other property types.

Logistics properties remained the primary driver of industrial demand, adding 64.9 million square feet over the 12 months ending in May. Specialized facilities came next with 11.1 million square feet—an increase of 189% year-over-year. In contrast, Flex space posted a net loss, with 7.8 million square feet vacated. Rent growth slowed across all industrial types, with Logistics and Specialized seeing the most significant declines, down 3.9% and 3.0% year-over-year, to 1.9% and 2.0%, respectively. Flex rents slipped 2.2%, settling at 1.5%.

This May, Savannah, GA, saw an all-time high absorption, leaving behind even Dallas-Fort Worth, TX, with both absorbing over 20M SF in 12 months. Meanwhile, Los Angeles vacated 6.8M SF of industrial properties in the 12 months ending in May, but still maintains a vacancy rate of 6.3%, below the 7.4% national level.

May saw significant rent movements across different metros. Dayton, OH led with a 7.5% increase, trailed by Columbus, OH at 6.7%. On the downside, Los Angeles, CA, recorded the largest drop at 5.2%, while rents in the Inland Empire, CA, fell 3.7%. Charleston, SC, reported the highest vacancy rate at 16.3%, followed by San Francisco, CA, at 13.4%. Meanwhile, Anchorage, AK, had the lowest vacancy rate at just 0.5%, highlighting persistent regional imbalances in the rental market.

### Top 10 areas with the strongest 12 Mo absorption

| | 2025 Q2 | 2024 Q2 |
|---|---|---|
| Savannah, GA | 26.82M | 8.25M |
| Dallas-Fort Worth, TX | 21.78M | 26.55M |
| Houston, TX | 14.63M | 21.33M |
| Phoenix, AZ | 12.08M | 15.41M |
| Kansas City, MO | 8.92M | 3.02M |
| Saint Louis, MO | 4.62M | 0.44M |
| Washington, DC | 4.31M | 4.99M |
| Las Vegas, NV | 4.20M | 4.57M |
| Spartanburg, SC | 4.15M | 2.89M |
| Providence, RI | 3.88M | 0.95M |

### Top 10 areas with the weakest 12 Mo absorption

| | 2025 Q2 | 2024 Q2 |
|---|---|---|
| Los Angeles, CA | -6.80M | -11.28M |
| Memphis, TN | -6.49M | -2.05M |
| Milwaukee, WI | -4.56M | 1.00M |
| Baltimore, MD | -4.05M | -0.93M |
| Detroit, MI | -3.48M | 2.74M |
| Boston, MA | -2.90M | 0.53M |
| San Diego, CA | -2.81M | -2.41M |
| Miami, FL | -2.58M | 1.98M |
| Montgomery, AL | -2.14M | -0.54M |
| Syracuse, NY | -2.06M | -0.80M |

Source: NAR analysis of CoStar data

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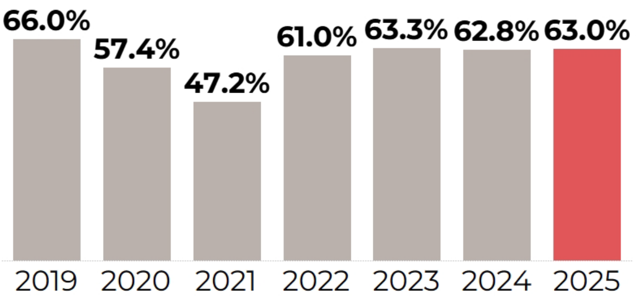
# Hotel

## Occupancy rate in the last 12 months: 63.0%
## Average daily rate in the last 12 months: $160/room
## Revenue per available room in the last 12 months: $101/room

As 2025 continues, the hospitality sector remains steady. Hotel occupancy stands at 63.0%, still 3.0% below pre-pandemic levels, primarily due to remote work trends and tightened business travel spending, which are impacting urban hotel stays. However, both average daily rates and revenue per available room have surpassed pre-pandemic benchmarks, signaling a rebound in profitability.

### 12-month Occupancy Rate in May




In May 2025, the average daily rate (ADR) for hotel rooms hit $160, up 22% from May 2019. Meanwhile, revenue per available room (RevPAR) rose to $101, representing a 17% increase over the same period.

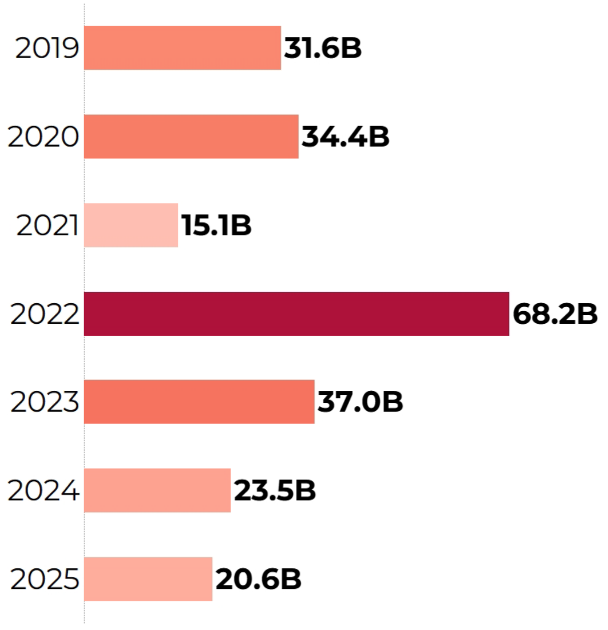
### 12-month ADR and RevPAR in May

| | Average daily rate | Revenue per available room |
|---|---|---|
| 2019 | $131 | $86 |
| 2020 | $126 | $73 |
| 2021 | $101 | $48 |
| 2022 | $138 | $84 |
| 2023 | $154 | $97 |
| 2024 | $157 | $99 |
| 2025 | $160 | $101 |

ADR is the total revenue/number of rooms.
RevPAR is ADR x occupancy rate.

Hotel acquisitions have dipped slightly over the past year. As of May 2025, the 12-month sales volume declined to $20.6 billion, down from $23.5 billion the previous year, suggesting that investors are waiting for clearer signs of demand stability and pricing adjustments.

### 12-month Sales Volume as of May




Source: NAR analysis of CoStar data

At the metro level, Kauai Island, Hawaii, continues to deliver strong hospitality performance, with ADR and RevPAR both up 56% compared to pre-pandemic levels. Occupancy remains stable at 70%, reflecting healthy visitor volumes. Maui Island stands out nationally, reporting the highest ADR at $553 and leading RevPAR at $385. New York City also tops the chart for occupancy at 85%, driven by resilient business and tourism demand.

Meanwhile, markets like Texas West and San Francisco/San Mateo, CA, are still lagging, with RevPAR sitting 32% and 28% below pre-pandemic levels, indicating a slower path to full recovery.

# COMMERCIAL REAL ESTATE REPORT
# June 2025

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